

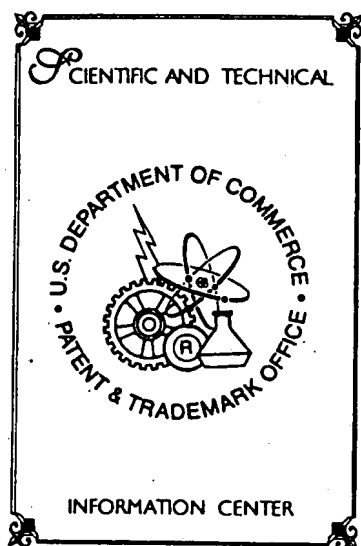
Dictionary of Business Terms

Fourth Edition

More than 7500 definitions
of key terms and definitions used in
the business and financial world

A handy reference guide for students, business proprietors and managers, and general readers. Topics covered relate to accounting, taxation, advertising, business law, communications, transportation, computers and the Internet, economics, finance, insurance, international business, management, marketing, real estate, statistics, and other areas of business.

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payment before shareholders upon dissolution of the corporation. *See also* CONVERTIBLES; INDENTURE.

DEBIT

Accounting: entries on the left side of the GENERAL LEDGER. Debits include the acquisition cost of assets and amounts of deductible expenses.

Real estate: in a CLOSING STATEMENT, item that is charged to a party. For example, the buyer is charged with these typical debits: purchase price, taxes prepaid by the seller, and deed recording fees. Debits charged to the seller include cost to retire the existing mortgage principal, accrued interest on the mortgage being relieved, and a termite inspection fee. *See also* CREDIT.

DEBIT CARD card used for making electronic transfers of cash from a customer's bank account to a store's account. Banking at home is another type of a debit account where transactions are made to a depository institution's account through a computer terminal. These transactions occur simultaneously and replace the need for checks or cash. *See also* AUTOMATED TELLER MACHINE (ATM).

DEBIT MEMORANDUM notice of a charge against an account, such as a deposited check that was returned because of insufficient funds.

DEBT obligation to pay. *See also* ACCOUNTS PAYABLE; LIABILITY; LOAN; MORTGAGE.

DEBT COVERAGE RATIO mathematical relationship of NET OPERATING INCOME divided by ANNUAL DEBT SERVICE; often used as underwriting criterion for INCOME PROPERTY mortgage loans. *See also* DEBT SERVICE COVERAGE.

DEBT/EQUITY RATIO the relationship of these components of PURCHASE CAPITAL. For example, if the outstanding MORTGAGE AMOUNT is \$75,000 and the equity is \$25,000, the *debt/equity ratio* is 3:1. This is equivalent to a 75% LOAN-TO-VALUE RATIO loan. Similarly, if a corporation's debt is three times the amount of stock, the ratio is 3:1. If the debt/equity ratio of a corporation is too high, the IRS may classify the corporation as a THIN CORPORATION and disallow some of the interest expense, recasting the payment as a dividend to its shareholders.

DEBT FINANCING raising capital through borrowing as with the sale of bonds; *contrast with* EQUITY FINANCING, which is raising capital through the sale of an ownership portion (stock).

DEBT INSTRUMENT written promise to repay a debt, such as a BILL, BOND, BANKER'S ACCEPTANCE, NOTE, CERTIFICATE OF DEPOSIT, or COMMERCIAL PAPER. A formal debt instrument is critical for obtaining a nonbusiness bad-debt deduction.

DEBTOR one who owes another something or is under obligation to pay money or to fulfill some other obligation; in BANKRUPTCY or similar

proceedings, the person who is the subject of the proceeding. *See also* CREDITOR.

DEBT RETIREMENT repayment of debt. The most common method of retiring corporate debt is to set aside money each year in a sinking fund. Mortgages are retired through amortization or PREPAYMENT.

DEBT SECURITY SECURITY representing money borrowed that must be repaid and having a fixed amount, a specific MATURITY or maturities, and usually a specific rate of INTEREST or an original purchase DISCOUNT. Examples are BILLS, BONDS, COMMERCIAL PAPER, and NOTES.

DEBT SERVICE cash required in a given period, usually one year, for payments of interest and current maturities of PRINCIPAL on outstanding debt. Debt service in mortgage loans includes interest and principal; in corporate bond issues, the annual interest plus annual SINKING FUND payments; in government bonds, the annual payments into the debt service fund. *See also* ABILITY TO PAY.

DEBT SERVICE COVERAGE

Corporate finance: amount, usually expressed as a ratio, of CASH FLOW available to meet annual interest and principal payments on debt, including SINKING FUND payments. *See also* FIXED-CHARGE COVERAGE.

Government finance: export earnings required to cover annual principal and interest payments on a country's external debts.

Personal finance: ratio of monthly installment debt payments, excluding mortgage loans and rent, to monthly take-home pay.

Real estate: net operating income divided by annual debt service.

DEBT-TO-EQUITY RATIO

1. total LIABILITIES divided by total SHAREHOLDERS' EQUITY. This shows to what extent owners' equity can cushion creditors' claims in the event of LIQUIDATION.
2. total LONG-TERM DEBT divided by total SHAREHOLDERS' EQUITY. This is a measure of LEVERAGE, the use of borrowed money to enhance the return on owners' equity.
3. LONG-TERM DEBT and PREFERRED STOCK divided by COMMON STOCK equity. This relates securities with fixed charges to those without fixed charges. *See also* LOAN-TO-VALUE RATIO.

DEBUGGING process of removing bugs from COMPUTER PROGRAMS, that is, correcting errors. With a complicated program, it may take longer to correct all the errors than it did to write the program in the first place.

DECEDENT a person who has died.

DECENTRALIZATION essential decision making and policy formulation done at several locations throughout an organization. The objective is to give decision-making authority to those most directly responsible for the outcome of those decisions, with first-hand experience and knowledge about the issues involved.